

**CITY OF KELLERTON**

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD  
APRIL 1, 2015 THROUGH MARCH 31, 2016**

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**City of Kellerton  
Officials**

**(Before January 2016)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Diana Euritt	Mayor	Jan 2016
Kathy Johnston	Council Member	Jan 2018
Rod Holmes	Council Member	Jan 2016
Mathew West	Council Member	Jan 2016
Danny Webb	Council Member	Jan 2018
John Euritt*	Council Member	Jan 2016
Judy Doolittle	City Clerk	Indefinite
Patrick Greenwood	Attorney	Indefinite

**(After January 2016)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tom Giles	Mayor	Jan 2018
Kathy Johnston	Council Member	Jan 2018
Rod Holmes	Council Member	Jan 2020
Mitch Doolittle	Council Member	Jan 2020
Danny Webb	Council Member	Jan 2018
Joe Stark	Council Member	Jan 2020
Judy Doolittle	City Clerk	Indefinite
Patrick Greenwood	Attorney	Indefinite

\*-Resigned on August, 2015.

City of Kellerton

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor  
and Members of City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Kellerton for the period April 1, 2015 through March 31, 2016. The City of Kellerton's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Kellerton and other parties to whom the City of Kellerton may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Kellerton during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Faller, Kincheloe & Co, PLC".

Faller, Kincheloe & Co, PLC

Des Moines, Iowa  
October 1, 2016

## Detailed Recommendations

## CITY OF KELLERTON

### DETAILED RECOMMENDATIONS

For the period April 1, 2015 through March 31, 2016

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Investing – recordkeeping, investing, custody or investments and reconciling earnings.
3. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
4. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
5. Payroll – recordkeeping, preparation and distribution.
6. Utilities – billing, collecting, depositing and posting.
7. Financial reporting – preparing and reconciling.
8. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

- (C) Deposits and Investments – The City has not adopted an official investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.



## CITY OF KELLERTON

### DETAILED RECOMMENDATIONS

For the period April 1, 2015 through March 31, 2016

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (D) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, public works, general government, capital projects and the business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Some of the City’s long-term debts are not included on the long term debt schedule on the City’s budget, as required.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. Also, all of the City’s long term debts should be included on the long term debt schedule on the City’s budget.

- (E) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (F) Monthly Clerk’s Report – The monthly Clerk’s Report provided to the City Council for review does not include a comparison of total disbursements for all funds to the certified budget by function. In addition, the monthly Clerk’s Report does not document year to date receipts by source and disbursements by function.

Recommendation – To provide better control over budgeted disbursements, the City Clerk’s monthly financial reports to the City Council should include a comparison of total disbursements for all funds to the certified budget by function. In addition, the monthly Clerk’s Report should document year to date receipts by source and disbursements by function.

## CITY OF KELLERTON

### DETAILED RECOMMENDATIONS

For the period April 1, 2015 through March 31, 2016

- (G) Bank Loan Agreement – On April 30, 2015, the City entered into a bank loan to pay costs associated with water tower repair. However, the City did not comply with the provisions of Chapters 384.24A and 384.25 of the Code of Iowa which require certain authorization procedures to be followed, including publication of a notice of intended action and the time and place of the meeting.

Recommendation – The City should comply with the Code of Iowa requirements before entering into future loan agreements.

- (H) Payment of General Obligation Bonds – Principal and interest on the City's general obligation bonds were paid from the General Fund. Chapter 384.4 of the Code of Iowa states, in part, "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund."

Recommendation – The City should transfer from the General Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund as required.

- (I) Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

- (J) Payroll – The City filed incorrect Forms W2's and W3's with the federal government. Specifically, the City did not reduce the federal and state wage amounts by the amount of the employee's share of retirement deducted from the employee's check.

We could not locate City Council approval of the wage rate for employees.

Recommendation – In the future, the City should ensure accurate W2's and W3's are filed with the federal government, and that the federal and state wage amounts are accurately reported.

In addition, wage rates for all employees should be documented in the City Council minutes.

## CITY OF KELLERTON

### DETAILED RECOMMENDATIONS

For the period April 1, 2015 through March 31, 2016

- (K) Disbursements - Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for four transactions tested could not be located.

Recommendation - All disbursements should be supported by invoices or other supporting documentation.

- (L) Local Option Sales Tax – The local option sales tax (LOST) ballot for Ringgold County could not be located by Ringgold County or by City officials. During the year, LOST receipts were recorded in the General Fund.

Recommendation –The City should consult with legal counsel to determine how to account for the LOST monies received from Ringgold County.

- (M) City Council Minutes – The following were identified:

- All four City Council meetings tested were not signed as required by Chapter 380.7 of the Code of Iowa.
- Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for three meeting tested were not published within fifteen days.
- Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to include total disbursements from each fund. We noted that this requirement was not met by the City for the meetings tested.

Recommendation – The City should comply with Chapters 380.7 and 372.13(6) of the Code of Iowa.